



Irving Trust



Financial Markets

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An 18% inflation rate reported for producer prices in February seemed to highlight the economic policy uncertainties dominating the credit markets. Market participants speculated about an imminent sharp jump in the discount rate, perhaps to 15%, and also heard rumors that the Federal Reserve was considering a floating discount rate to be tied to the Federal funds rate—all in an effort to further rein in credit expansion. There were also signals from Washington that the administration and Congress were on the verge of taking steps to cut government outlays this fiscal year and next by as much as \$25 billion. And talk of controls—wage, price, and credit—filled the air.

Yet despite the spreading conviction (hope?) that a comprehensive and dramatic package of proposals to attack intensifying inflationary pressures might be in the wings, bond prices continued to fall. Market participants have been burned too many times in the recent past by betting on the promise of tough new anti-inflation measures that proved to be only a rhetorical shell game. The next move is up to Washington, and until convincing action is taken, further deterioration in bond prices seems the most likely outcome.

For now, the inflation battle is being fought by the Federal Reserve. And the Fed's actions in the money markets seem to indicate a willingness to let short-term rates move still higher if necessary to cool money and credit expansion. The Federal funds rate did come down from the 17% range that prevailed last Friday, but when funds hit the 15% mark, the Fed intervened to absorb reserves through overnight reverse repurchase agreements. And by Friday, funds were again trading near 17%.

Short-term rates surged, with banks offering 17% and more for three-month C.D. money, up sharply from last week. The increase in the cost of bank funds, to an effective rate well over 18%, led to another boost in the prime rate to 17 3/4% (one bank went to 18%) from the 17 1/4% level posted earlier in the week. In the government market, the Treasury found itself paying a record 15.1% at last Monday's auction on three-month Treasury bills as it contended with a flow of bill sales from foreign central banks seeking dollars to support their own currencies. As the week came to an end, the money markets appeared to be settling into the same state of disarray that has characterized the bond markets for some time now.

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Money Market Rates

Prime Lending Rate at Irving Trust Company Short-term loans to substantial depositors with highest credit rating.	3/7/80 (noon) 17.75%	Week Ago 16.75%	Year Ago 11.75%
Effective since	3/7/80		
Discount Rate at Federal Reserve Bank	13.00	13.00	9.50
Federal Funds	17.00	15.50	10.00
Repurchase Agreements	15.75	13.25	9.75
U.S. Treasury Issues - Yields			
Bills			
3 months	16.71	14.55	9.75
6 months	16.85	15.10	10.00
1 year.	16.22	15.40	10.20
Coupons			
2 years	15.40	14.66	9.70
4 years	14.25	13.71	9.18
7 years	13.45	13.08	9.08
10 years	13.10	12.80	9.08
Long Bond.	12.60	12.29	9.01
Negotiable Certificates of Deposit-Secondary Market			
1 month	17.25	15.00	9.90
3 months	17.75	15.65	10.18
6 months	18.00	16.05	10.53
1 year.	17.00	16.00	10.25
Bankers' Acceptances			
1 month	17.25	14.95	9.88
3 months	17.80	15.60	10.10
6 months	18.50	16.10	10.47
Eurodollar Deposits			
1 month	18.25	16.25	10.38
2 months	18.75	16.63	10.50
3 months	18.88	17.00	10.63
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	17.00	14.00	9.63
1 month.	17.13	14.50	9.75
3 months	15.00	14.00	9.75
Bank Holding Companies			
1 month.	16.75	14.63	9.75
Dealer Placed:			
3 months	17.25	14.88	10.00
New Aa Corporate Utility Bond	14.50	14.50	9.75
Tax Exempt			
6 month Project Notes.	7.50	7.00	5.20
12 month Project Notes.	N/A	N/A	5.35
20 year AAA Bond.	8.50	8.50	5.80

This information represents prevailing market yields. It should not be construed as an offering. All yields are on the offered side of the market.

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